Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

cal Govern		-	Village	Other	Local Governme	ent Name irton Shores, Michigan		County Muskeg	on
City dit Date 5/30/05	Towns		Opinion I	Date		Date Accountant Report Submitte 10/26/05			
e have a	audited the with the statements	finance States for Co	ial statem	ents of this	s local unit of nmental Accords ts of Governme	government and rendered a unting Standards Board (G ent in Michigan by the Michig	an opinion on fi ASB) and the gan Department	t of Treasur 9 .6	PT. OF THE
le affirm	that:							1 1	NOV 1 4 2
. We ha	ve compli	ed with	the Bullet	tin for the A	udits of Local	Units of Government in Mich	nigan as revised		
. We an	e certified	public a	accountan	nts registere	ed to practice i	n Michigan.		LOCAL	IUDIT & FINAN
/e further	affirm the	followi	ng. "Yes"	responses	have been dis	closed in the financial stater	nents, including	the notes, or	in the report
ou must o	check the	applical	ole box for	r each item	below.				
Yes	✓ No	1. Ce	rtain com	ponent unit	s/funds/agenc	ies of the local unit are exclu	ided from the fil	nancial stater	ments.
Yes	✓ No		ere are a 5 of 1980)		d deficits in on	e or more of this unit's unr	eserved fund b	alances/retair	ned earnings (l
Yes	☐ No		ere are in nended).	nstances o	of non-complia	nce with the Uniform Accor	unting and Bud	dgeting Act (F	P.A. 2 of 1968
Yes	✓ No	4. Th	e local u quirement	nit has vio	plated the conder issued und	ditions of either an order i er the Emergency Municipal	ssued under th Loan Act.	ne Municipal	Finance Act o
Yes	√ No	5. Th	ne local u amended	nit holds d d [MCL 129	eposits/investr 9.91], or P.A. 5	nents which do not comply 5 of 1982, as amended [MC	with statutory L 38.1132]).	requirements.	(P.A. 20 of 1
Yes	✓ No					distributing tax revenues that			
Yes	✓ No	7. pe	ension be edits are	nefits (norr more than t	nal costs) in the the normal cos	stitutional requirement (Artine current year. If the plan interpretation trequirement, no contribution	ons are due (pa	id during the y	rear).
Yes	✓ No	8. T	ne local u ICL 129.2	unit uses c 241).	redit cards an	d has not adopted an app	licable policy a	s required by	P.A. 266 of
Yes	✓ No	9. T	he local u	nit has not	adopted an inv	vestment policy as required t	oy P.A. 196 of 1	1997 (MCL 12	9.95).
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CITY OF NORTON SHORES MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2005

Prepared by Finance Department

Michael D. Huston Finance Director

Tina C. Ericksen Controller/Treasurer

Comprehensive Annual Financial Report City of Norton Shores

June 30, 2005

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Comprehensive Annual Financial Report City of Norton Shores

June 30, 2005

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Independent Auditors' Report

To the Honorable Mayor and City Council City of Norton Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Norton Shores' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005, on our consideration of the City of Norton Shores' internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 9 through 18 and pages 56 through 59 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norton Shores' basic financial statements. The combining funds statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pridria Lather, PLLC

Muskegon, Michigan September 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Norton Shores, Michigan, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the City of Norton Shores for the fiscal year ended June 30, 2005. Please read this narrative in conjunction with the review of our financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City of Norton Shores exceeded its liabilities at the close of the fiscal year by \$56,018,185 (net assets), compared to \$54,763,850 at June 30, 2004. Of this amount, \$20,276,705 (unrestricted or undesignated net assets) may be used to meet the City's obligations to citizens and creditors.
- The City's total net assets increased by \$1,254,335.
- As of the close of its current fiscal year, the City of Norton Shores' governmental funds reported a combined ending net assets of \$14,074,774, an increase of \$1,138,291 in comparison with the preceding fiscal year. Approximately 54% or \$7,604,855 is available for spending at the City's discretion (undesignated net assets).
- At the end of the current fiscal year, the undesignated fund balance for the general fund was \$1,009,334, or 13% of total general fund expenditures.
- The City of Norton Shores total debt decreased by \$851,270, or 5%, during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Norton Shores' basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The "government-wide financial statements" are designed to provide readers with a broad overview of the City of Norton Shores' finances in a manner similar to a private-sector business. These statements are presented on the full accrual basis of accounting, which when viewed from the economic resources management focus can be used to determine whether the City has improved or deteriorating finances.

The "statement of net assets" presents information on all of the City of Norton Shores' assets and liabilities, with the difference between the two being reported as "net assets". Over the years, increases or decreases in net assets may serve as one indicator of the change in the financial condition of the City.

The "statement of activities" presents how the net assets changed during the period just ended. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. Example of timing differences is uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City of Norton Shores that are primarily supported by tax and intergovernmental pass through revenues (governmental activities) from other functions that were created and intended to recover most or all of their costs through user fees and charges for services (business-type activities). The government activities include legislative, general city government, public safety, highways and streets, community development, culture, recreation, and debt service. The business type activities include water and sewer utilities and equipment maintenance and replacement services.

The government-wide financial statements include not only the City of Norton Shores (the primary government) but also the legally separate Tax Increment Financing and Brownfield Redevelopment Authorities. The boards of these organizations are appointed by the City and there is a potential for liability to the City. The financial information of these component units is reported separately from the financial information of the primary government itself.

Reporting on the City's major funds

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control and reporting of resources that are segregated for a specific purpose or activity with defined objectives. The City of Norton Shores is required by State law to use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Norton Shores are divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the City's short term financing needs.

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, informed readers may better be able to understand the long-term impact of the city's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Norton Shores maintains over fifteen individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street, and capital improvement fund. All of these funds are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non- major governmental funds is provided in the form of combining statements elsewhere in the report.

The City of Norton Shores adopts an annual appropriated budget for its general, special revenue, and debt service funds. Budgetary comparisons (original and final) have been provided for the major funds to demonstrate compliance with the budgets as required supplementary information. A comparison of budget to actual expenditures is provided for all non-major governmental funds in the combining financial statements - governmental activities by fund type.

Proprietary funds. The City of Norton Shores maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as "business-type activities" in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. City internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for equipment maintenance and replacement services. Because these services predominantly benefit governmental rather than business-type activities, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer funds which is considered a major fund of the City. Conversely, the internal service fund is presented in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own operations. The accounting used for fiduciary funds is like that used for proprietary funds (full accrual).

Notes to the basic financial statements. The notes provide additional information that is important to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information concerning the City's budgetary information as it relates to the actual expended and certain pension information with the corresponding trend data.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted previously, net assets may serve as a useful indicator of the City's overall financial health. The City of Norton Shores' assets exceed liabilities by \$56,018,185 at the close of fiscal year 2005, compared to \$54,763,850 at the close of fiscal year 2004.

The largest portion of net assts in the City (47%) are its fixed assets (land, buildings, machinery and equipment), less related debt outstanding used to acquire these assets. The City uses these fixed assets to provide services to City residents and, therefore, are not available for disposal to fund future projects or operations. Although the City's investment in fixed assets is reported net of capital debt, it is noted that resources needed to retire this debt must come from future sources of revenue, as the assets themselves can't be used to liquidate these obligations.

CITY OF NORTON SHORES NET ASSETS

Major Categories	Governmental Activities 2005	Governmental Activities 2004	Business- Type Activities 2005	Business- Type Activities 2004	Total 2005	Total 2004
Cash and investments Receivables Other current assets Long term assets Fixed assets	\$ 7,745,459 1,273,116 408,895 - 7,589,610	\$ 6,923,788 1,431,977 589,574 - 7,269,889	\$ 1,504,174 2,248,236 205,359 8,687,298 42,488,526	\$ 1,336,400 2,272,743 165,478 17,641,243 33,833,154	\$ 9,249,633 3,521,352 614,254 8,687,298 50,078,136	\$ 8,260,188 3,704,720 755,052 17,641,243 41,103,043
Total Assets	17,017,080	16,215,228	55,133,593	55,249,018	72,150,673	71,464,246
Other liabilities Long-term liabilities	945,301 1,997,005	897,505 2,381,240	529,370 12,660,812	293,804 13,127,847	1,474,671 14,657,817	1,191,309 15,509,087
Total Liabilities	2,942,306	3,278,745	13,190,182	13,421,651	16,132,488	16,700,396
Investment in fixed assets – net of related debt Restricted Unrestricted	5,996,518 473,401 7,604,855	4,888,649 453,962 7,593,872	20,584,263 8,687,298 12,671,850	20,705,307 8,027,694 13,094,366	26,580,781 9,160,699 20,276,705	25,593,956 8,481,656 20,688,238
Total Net Assets	\$ 14,074,774	\$ 12,936,483	\$ 41,943,411	\$ 41,827,367	\$ 56,018,185	\$ 54,763,850

A portion (16%) of the City's net assets has certain restrictions placed on their use. The remaining balance of unrestricted net assets (\$20,276,705) can be used to meet the City's ongoing obligations to its residents and creditors. A major portion (46%) of the Governmental total assets of the City are cash and cash equivalents (liquid) and short term receivables, which gives us a great ability to meet current obligations of short and long term nature. This ability allows the City to meet changing conditions in the market place as well as changes in the local economy.

Governmental Activities. Governmental activities increased the City's net assets by \$1,138,291. This increase was due primarily to increases in tax revenue or as result of new construction and general market value increases.

Other elements in the increase are as follows:

CITY OF NORTON SHORES CHANGES IN NET ASSETS

Major Categories	Governmental Activities 2005	Governmental Activities 2004	Activities	Type Activities	Total	
Revenues						
Program Revenues						
Operating grants and						
contributions	\$ 50,655	\$ 50,593	-		\$ 50,655	
Charges for services	1,565,379	1,493,246	4,436,512	4,382,537	6,001,891	5,875,783
Capital grants-					0 (0 100	211 102
contributions	362,122	211,103	-	-	362,122	211,103
General Revenues	< 105 F04	r 025 025			C 105 70C	£ 00£ 007
Taxes	6,195,706	5,825,927	-	-	6,195,706	5,825,927
Special assessments	00.400	7.526	654.200	670 492	724 972	£70 010
levied	80,492	7,536		570,482	734,872	
Licenses and permits	784,501	712,828	-	-	784,501	712,828
Intergovernmental revenue	3,791,316	3,941,124			3,791,316	3,941,124
Fines and forfeits	87,602	66,947		_	87,602	
Interest income	337,586	508,509		539,755		
Gain on sale of	337,380	500,507	200,000	337,733	347,302	1,040,204
equipment	_	66,737	_	-	_	66,737
Miscellaneous	83,449	171,124		131,433	121,063	
Total Revenues	13,338,808	13,055,674	5,338,502	5,624,207	18,677,310	18,679,881
Expenses						
General government	2,034,849	2,096,904	_	_	2,034,849	2,096,904
Public safety	6,125,638	5,896,018	_	-	6,125,638	5,896,018
Highways and streets	1,795,446	2,344,761	-	_	1,795,446	2,344,761
Sanitation	707,660	493,463	-	_	707,660	
Culture and recreation	606,938	602,291	-	-	606,938	602,291
Administration	977,784	987,564	~	-	977,784	987,564
Community						
development	111,882	145,715	-	-	111,882	145,715
Debt Service						
Interest	81,270	86,022	-	-	81,270	86,022
Water and sewer	-		5,222,458	4,834,707	5,222,458	4,834,707
Total Expenses	12,441,467	12,652,738	5,222,458	4,834,707	17,663,925	17,487,445
Increase in Net Assets						
before Transfers	897,341	402,936	116,044	789,500	1,013,385	1,192,436
botore transfers	077,541	102,730	110,011	, 65,500	1,010,000	1,1,2,1,00
Transfers	240,950	252,669	-		240,950	252,669
Increase in Net Assets	1,138,291	655,605	116,044	789,500	1,254,335	1,445,105
Net Assets-July 1, 2004	12,936,483	12,280,878	41,827,367	41,037,867	54,763,850	53,318,745
Net Assets-June 30, 2005	\$ 14,074,774	\$ 12,936,483	\$ 41,943,411	\$ 41,827,367	\$ 56,018,185	\$ 54,763,850

Business-type activities. Business-type activities increased the City of Norton Shores' net assets by \$116,044 accounting for 10% of the total growth in the government's net assets. Water and sewer installations and connections drove the increase by contributing over \$654,380 in revenue.

Financial analysis of the Government's Funds

As noted earlier, the City of Norton Shores uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Norton Shores' governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For the current fiscal year, the City of Norton Shores' governmental funds reported combined ending fund balances of \$7,027,436, an increase of \$403,801 in comparison with the previous year. Approximately 89% of the fund balance (\$6,251,941) constitutes unreserved balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$302,094), 2) pay debt service (\$57,478), and 3) reserve for perpetual care (\$415,923).

The general fund is the chief operating fund of the City of Norton Shores. At the end of the current fiscal year, unreserved fund balance of the general fund and total fund balance was \$1,009,334. As one measure of the general fund's liquidity, it is useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 13% of total general fund expenditures, while total fund balance also represents 13% of that same amount. This percentage is equal to the prior year.

Major revenue items contributed to the \$266,841 increase in revenues in the general fund. Property taxes increased \$257,518, intergovernmental revenues decreased \$72,679 in the general fund. The majority of revisions to revenue were in the areas of charges for services and investment income. Expenses in the general fund were \$80,392, greater than the previous year, leading to a net increase in fund balance of \$11,738 over the previous fiscal year.

Proprietary Funds. The City of Norton Shores proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water and sewer system were \$12,671,850, with the equipment revolving funding showing unrestricted net assets of \$1,448,952.

General Fund Budgetary Expenditure Highlights

The increase between the original budget and the final amended was very small (less than ¼ of 1%) and is briefly summarized as follows:

Increase in medical insurance costs for all employee groups. Increase in pension contribution amounts due to higher salaries and increased amortization expense.

Budgeted expenditures decreased \$6,129. As indicated previously, increases in pension and medical costs accounted for nearly all the appropriation increases. Total actual expenses came in under budget and allowed revenues to flow through as an increase in the fund balance.

Capital Asset Administration

Capital Assets. The City of Norton Shores' investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$40,759,408 (net of accumulated depreciation) compared to \$41,103,043 at June 30, 2004. This involvement in capital assets includes land, buildings, improvements, machinery, equipment, water supply and sanitary sewer collection systems and capitalized interest and engineering. The total decrease in the City's capital assets for the current fiscal year was 1%, net of depreciation. Additions for the fiscal years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Land	\$ -	\$ 300
Buildings	33,183	22,654
Land Improvements	42,883	242,009
Machinery and Equipment	1,317,529	1,001,065
Water Mains and Hydrants	40,493	61,146
Sewers and Lift Stations	29,239	43,509
Construction in Progress	251,841	177,340
Infrastructure	78,169	· -

CITY OF NORTON SHORES CAPITAL ASSETS

Major Categories	Governmental Activities 2005	Governmental Activities 2004	Business- Type Activities 2005	Business- Type Activities 2004	Total 2005	Total 2004
Land	\$ 1,875,699	\$ 1,875,699	\$ 250	\$ 250	\$ 1,875,949	\$ 1,875,949
Land improvements	1,288,696	1,245,813	-	-	1,288,696	1,245,813
Buildings and						
improvements	2,826,835	2,793,652	-	-	2,826,835	2,793,652
Machinery and equipment	10,563,871	9,601,595	114,912	114,912	10,678,783	9,716,507
Infrastructure	78,169	-	-	-	78,169	-
Regional Water System	-	-	1,510,285	1,510,285	1,510,285	1,510,285
City Water System	-	-	9,294,267	9,253,774	9,294,267	9,253,774
Sewers and lift stations	-	-	35,610,827	35,581,588	35,610,827	35,581,588
Wastewater treatment	-	-	5,400,608	5,400,608	5,400,608	5,400,608
Construction in progress	-		4,325,532	4,073,691	4,325,532	4,073,691
Total	\$ 16,633,270	\$ 15,516,759	\$ 56,256,681	\$ 55,935,108	\$ 72,889,951	\$ 71,451,867

Additional information on the City's capital assets can be found in Note 4 of the "Notes to Basic Financial Statements" of this report.

Long-term debt. At the end of the current fiscal year, the City of Norton Shores had total bonded debt outstanding of \$14,178,627. The bonded debt is backed by the limited full faith and credit of the City; that is, existing taxing authority or current revenues for the retirement of outstanding debt.

CITY OF NORTON SHORES OUTSTANDING DEBT

Major Categories	Governmental Activities 2005	Governmental Activities 2004	Business- Type Activities 2005	Business- Type Activities 2004	Total 2005	Total 2004
General obligation bonds Limited full faith and	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
credit bonds	1,250,000	1,500,000	12,585,535	13,053,062	13,835,535	14,553,062
CDBG Act 108 loan payable	105,000	125,000	-	-	105,000	125,000
Equipment capital lease Payable	238,092	271,907	-	-	238,092	271,907
Accumulated compensated absences	403,913	384,333	75,277	74,785	479,190	459,118
Total	\$ 1,997,005	\$ 2,381,240	\$ 12,660,812	\$ 13,127,847	\$ 14,657,817	\$ 15,509,087

The City's total debt decreased by \$851,270. This reduction was due entirely to normal debt payoffs as provided for in the FY-2005 budget.

Additional information on the City of Norton Shores' long-term debt can be found in Note 5 of the notes to the financial statements.

GENERAL

The economic climate in Muskegon County and West Michigan remains stable. Unemployment and welfare caseloads continue at a low rate, although higher than both the state and federal rates as compared to County statistics. These increases are attributed to the weakening of the industrial base in the West Michigan area and its subsequent loss of jobs to other states and foreign countries. The City of Norton Shores continues to grow and diversify its base and is perceived as a good place to live, work and do business.

Several projects and achievements have contributed to the growth and quality of living in Norton Shores. Some of the more significant are:

An additional fire station was constructed on Pontaluna Road to serve the south end of the City and the TIFA business district.

The fire department was also able to purchase emergency equipment through a grant from FEMA.

John, Ida, and Eugene Streets were reconstructed for the purpose of making them into public roads.

Water main reconstruction was completed at the corner of Roosevelt Road and Norton Avenue and on Porter Road.

Requests for Information

This financial report is designed to provide a general overview of the City of Norton Shores' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Norton Shores, Finance Department, 4814 Henry Street, Norton Shores, Michigan 49441, telephone (231) 798-4391.

	Primary Government				
June 30, 2005	Governmental Activities	Business-Type Activities	Total		
Assets					
Cash and cash equivalents Receivables Accounts Intergovernmental Assessments Internal balances Prepaid items Inventory of material and supplies Restricted assets Capital assets, net of accumulated depreciation	\$ 7,745,459 189,570 640,531 443,015 1 408,894 - 7,589,610	\$ 1,504,174 871,416 - 1,376,820 - 35,689 169,670 8,687,298 33,169,798	, ,		
Wastewater facility rights, net of amortization Water plant facility rights, net of amortization	-	430,833 8,887,895	430,833 8,887,895		
	\$ 17,017,080	\$ 55,133,593	\$ 72,150,673		
Liabilities Checks issued against future deposits Account payables Accrued payroll Special agreements payable Long-term debt (Note 5) Due within one year Due in more than one year Unearned revenues	\$ 243,549 205,288 69,517 - 355,367 1,641,638 426,947	\$ - 351,044 7,554 5,098 490,595 12,170,217 165,674	\$ 243,549 556,332 77,071 5,098 845,962 13,811,855 592,621		
Total Liabilities	2,942,306	13,190,182	16,132,488		
Net Assets Investment in capital assets net of related debt Restricted for Debt service Perpetual care Capital improvements Unrestricted	5,996,518 57,478 415,923	20,584,263	26,580,781 57,478 415,923 8,687,298		
Net Assets	7,604,855 \$ 14,074,774	12,671,850 \$ 41,943,411	20,276,705 \$ 56,018,185		

Statement of Net Assets

_	Componer	t Units
_	Tax Increment Finance Authority	Brownfield Redevelopment Authority
	\$ 507,030	\$43,097
	-	-
	-	-
	-	-
	-	-
	-	-
		-
	1,241,299	-
		-
	\$1,748,329	\$43,097
		ψ·3,077
	\$ -	•
	270	\$ -
	234	-
	-	-
	-	_
	-	-
	-	
	504	-
	-	-
	_	
	-	<u>-</u>
	1,747,825	43,097
	\$ 1,747,825	\$43,097

		_		Pr	ogram Reve	nues	
Year ended June 30, 2005		Expenses	Charge: Serv		Operat Grants a Contribution	anď	Capita Grants an Contribution
Primary Government							
Government activities							
General government	\$ 2	,034,849	\$ 868,	340	\$		\$
Public safety	6	,125,638	491,		50,6	55	173,723
Highways and streets	1	,795,446	,	_	30,0	-	
Sanitation		707,660		_		-	188,399
Culture and recreation		606,938	205,	642		-	•
Administration		977,784		-		-	•
Community development		111,882		_		-	-
Debt service		,				-	-
Interest		81,270		-		_	
Total Government Activities	12,	441,467	1,565,3	379	50,63	55	362,122
Business-Type Activities		,	-, ,-		50,0.))	302,122
Water and sewer	5	222.450	4 40 < 0				
		222,458	4,436,5	12			
Total Primary Government	\$ 17,	663,925	\$ 6,001,8	91	\$50,65	55	\$362,122
Component Units	\$	108,001	\$	_	\$	_	\$ -
General Revenues							
Taxes							
Special assessments levied							
Licenses and permits							
Intergovernmental revenue							
Fines and forfeits							
Interest income							
Miscellaneous							
Transfers from component units							
otal General Revenues, Special Items, and Transfers							
hange in Net Assets							
et Assets, at beginning of year							
et Assets, at end of year							
re radicio, at cita of Agai					•		

Statement of Activities

	Net (Expense) Revenue and Changes in Net Assets			Component Units			
Total	Governmental	Primary Government Business-Type Activities Total		Tax Increment Finance Authority	Brownfield Redevelopment Authority		
\$ 868,340 715,775 188,399 - 205,642	\$ (1,166,509) (5,409,863) (1,607,047) (707,660) (401,296) (977,784) (111,882)	\$ - - - - - -	\$ (1,166,509) (5,409,863) (1,607,047) (707,660) (401,296) (977,784) (111,882)	\$ - - - - -	\$ - - - - -		
_	(81,270)		(81,270)				
1,978,156	(10,463,311)	-	(10,463,311)	-	-		
4,436,512	<u>-</u>	(785,946)	(785,946)				
\$ 6,414,668	(10,463,311)	(785,946)	(11,249,257)		-		
\$ -				(106,501)	(1,500)		
	6,195,706 80,492 784,501 3,791,316 87,602 337,586 83,449 240,950	654,380 - 209,996 37,614	6,195,706 734,872 784,501 3,791,316 87,602 547,582 121,063 240,950	850,994 - - 12,513 - (240,950)	18,283 - - - -		
	11,601,602	901,990	12,503,592	622,557	18,283		
	1,138,291	116,044	1,254,335	(516,056)	16,783		
	12,936,483	41,827,367	54,763,850	1,231,769	26,314		
	\$ 14,074,774	\$ 41,943,411	\$ 56,018,185	\$ 1,747,825	\$43,097		

June 30, 2005	General Fund		Major Streets Fund	Capital Improvements Fund
Assets				
Assets				
Cash and cash equivalents	\$ 629,950	\$	-	\$1,852,312
Due from other governments	271,886	_	295,963	
Due from other funds	1		´ <u>-</u>	-
Receivables				
Accounts	188,592		414	-
Assessments	-		-	-
Prepaid items	325,414		15,621	_
Total Assets	\$ 1,415,843	\$	311,998	\$1,852,312
Liabilities				
Checks issued against future deposits	\$ -	\$	243,549	\$ -
Accounts payable	132,595	Ф	14,076	ъ - 38
Accrued payroll	55,948		5,083	20
Unearned revenues	217,966		-	3,311
Total Liabilities	406,509		262,708	3,349
Fund Balances				
Reserved for debt service	_		_	_
Reserved for perpetual care	-		-	_
Unreserved				
Designated for subsequent year's expenditures	-		-	82,094
Undesignated	1,009,334		49,290	1,766,869
Total Fund Balances	1,009,334		49,290	1,848,963
Total Liabilities and Fund Balances	\$ 1,415,843	\$	311,998	\$1,852,312

Amounts reported for Governmental Activities in the Statement of Net Assets are different because: Capital assets used for governmental activities are not current financial resources and, therefore,

are not reported in the Governmental funds Balance Sheet

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment leasing to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Governmental-wide Statement of Net Assets

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the Governmental funds Balance Sheet

Net Assets of Governmental Activities

Governmental Funds Balance Sheet

Non-Major Governmental Funds	Total Governmental Funds		
\$ 3,839,532 72,682	\$ 6,321,794 640,531 1		
564 443,015 30,897	189,570 443,015 371,932		
\$ 4,386,690	\$ 7,966,843		
\$ - 55,080 6,091 205,670	\$ 243,549 201,789 67,122 426,947		
266,841	939,407		
57,478 415,923	57,478 415,923		
220,000 3,426,448	302,094 6,251,941		
4,119,849	7,027,436		
\$ 4,386,690			
	6,318,339		
	2,720,223		
	(1,991,224)		
	\$14,074,774		

Year ended June 30, 2005	General Fund	Major Streets Fund	Capita Improvement Fund
Revenues			Tune
Taxes	\$2,021,220	•	
Special assessments levied	\$3,931,239	\$ -	\$ 1,443,886
Licenses and permits	228,941	-	•
Intergovernmental revenues Charges for services	1,873,357	1,429,508	319,199
Fines and forfeits	1,537,879	-,,,,,,,	313,133
Interest income	87,602	-	
Miscellaneous revenue	103,541	4,864	111,710
Total Revenues	18,315	8,813	13,781
total Revenues	7,780,874	1,443,185	1,888,576
Expenditures		, ,	1,000,570
General government	2.056.406		
Public safety	2,056,486	-	-
Highways and streets	4,811,209 294,503	1 0 (0 000	-
Sanitation	294,303	1,262,938	-
Culture and recreation	606,938	-	-
Administration	-	242,642	- 510 000
Community development Capital outlay	-	242,042	510,899
Debt service	-	_	960,076
Principal payments			>00,070
Interest	-	-	33,815
otal Expenditures	7,769,136	1 505 500	12,480
	7,703,130	1,505,580	1,517,270
evenues over (under) expenditures	11,738	(62,395)	371,306
ther Financing Sources		•	
Interfund transfers in		0.4.00.4	
Interfund transfers out	-	24,931	
otal Other Financing Sources		 -	(114,931)
	-	24,931	(114,931)
evenues and other sources over (under)		•	
expenditures and other uses	11,738	(37,464)	256 275
nd Balance, at beginning of year	,0	(37,404)	256,375
and barance, at beginning of year	997,596	86,754	1,592,588
and Balance, at end of year	\$1,009,334	\$ 49,290	\$ 1,848,963

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

Non-Major Funds	Total Governmental Funds				
\$ 820,581 80,492 555,560 582,029 27,500	\$ 6,195,706 80,492 784,501 4,204,093 1,565,379 87,602 337,586				
42,540	83,449				
2,226,173	13,338,808				
27,262 556,960 238,005 707,660 - 224,243 111,882 79,169	2,083,748 5,368,169 1,795,446 707,660 606,938 977,784 111,882 1,039,245				
370,000 68,790	403,815 81,270				
2,383,971	13,175,957				
(157,798)	162,851				
330,950	355,881 (114,931)				
330,950	240,950				
173,152	403,801				
3,946,697	6,623,635				
\$4,119,849	\$ 7,027,436				

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

et Change in Fund Balances – Total Governmental Funds	\$ 403,801
mounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	1,039,245
Depreciation expense	(757,469)
The repayment of long-term debt consumes current financial resources	
but does not affect net assets.	403,815
The accrual of sick and annual wages does not consume current financial resources but does reduce net assets, therefore, they are not reported	
in governmental funds	(13,799)
The net revenue of certain activities of internal service funds is reported	
with governmental activities	62,698

Proprietary Funds

St	let Assi	ets
		i

	_	Governmental Activities
June 30, 2005	Water & Sewer Funds	Internal Service Funds
Assets		
Cash and cash equivalents Receivables	\$ 1,504,174	\$ 1,423,665
Accounts Assessments Prepaid items Inventory of material and supplies Restricted assets Property, plant and equipment, net of	871,416 1,376,820 35,689 169,670 8,687,298	36,962 -
accumulated depreciation (Note 4) Wastewater facility rights, net of amortization of	33,169,798	1,271,271
\$2,228,428 Water plant facility rights, net of amortization of	430,833	
\$530,405	8,887,895	_
otal Assets	\$ 55,133,593	\$ 2,731,898

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page.

Proprietary Funds

Statement of Net Assets

	_	Governmental Activities
	Water &	Internal
June 30, 2005	Sewer Funds	Service Funds
Liabilities		
Accounts payable	\$ 351,044	\$ 3,499
Accrued payroll	7,554	2,395
Special agreements payable	5,098	
Deferred revenues	165,674	_
Long-term debt (Note 5)	ŕ	
Due within one year	490,595	-
Due in more than one year	12,170,217	5,781
Total Liabilities	13,190,182	11,675
Net Assets		
Investment in capital assets, net of related debt	20,584,263	1,271,271
Restricted for capital improvements	8,687,298	-
Unrestricted	12,671,850	1,448,952
Total Net Assets	\$ 41,943,411	\$ 2,720,223

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets

		_	Gov	ernmental Activities
Year ended June 30, 2005		Water & Sewer Funds		Internal Service Funds
Operating Revenues Water sales	\$, ,	\$	-
Sewer service charges Water service installations and direct sewer connections Penalties on utility billings Billings to departments		1,804,528 654,380 44,376		-
Miscellaneous operating revenues		37,614		992,296 27,136
Total Operating Revenues		5,128,506		1,019,432
Total Operating Expenses		4,650,869		1,087,102
Operating profit (loss)		477,637		(67,670)
Non-Operating Revenues (Expenses) Interest income Gain on sale of equipment Interest expense		209,996 - (571,589)		45,307 85,061
Total Non-Operating Revenues (Expenses)		(361,593)		130,368
Change in Net Assets		116,044		62,698
Net Assets, at beginning of year		11,827,367	2	2,657,525
Net Assets, at end of year	\$ 4	11,943,411	\$ 2	2,720,223

Proprietary Funds

Statement of Cash Flows

	_	Go	overnmental Activities
Year ended June 30, 2005	Water & Sewer Funds		Internal Service Funds
Cash Flows from Operating Activities Operating income (loss) Adjustments to reconcile operating income to net cash provided by operations	\$ 477,637	\$	(67,670)
Decrease in deferred revenue Depreciation and amortization Changes in assets and liabilities	(42,710) 1,279,750		394,574
Accounts receivable Prepaid expenses Inventory	(181,900) 997 (40,878)		1,115 (1,320)
Accounts payable Accrued liabilities	 276,354 1,922		(1,940) 2,890
Total Cash Flows from Operating Activities	1,771,172		327,649
Cash Flows from Capital and Related Financing Activities Principal payments on long-term debt Interest payments on long-term debt Increase in compensated absences	(467,527) (571,589) 492		
Proceeds from sale of fixed assets Purchase of fixed assets Construction of water and sewer lines Collections of special assessments	(321,573) 206,407		85,061 (432,519) -
Total Cash Flows from Capital and Related Financing Activities	 (1,153,790)		(347,458)
Cash Flows from Investing Activities Interest income	209,996		45,307
Increase in Cash and Cash Equivalents	827,378		25,498
Cash and Cash Equivalents, at beginning of year	9,364,094		1,398,167
Cash and Cash Equivalents, at end of year	\$ 10,191,472	\$	1,423,665
Balance Sheet Classification of Cash and Cash Equivalents Cash and cash equivalents Restricted assets	\$ 1,504,174 8,687,298	\$	1,423,665
	\$ 10,191,472	\$	1,423,665

Fiduciary Funds Statement of Fiduciary Net Assets

June 30, 2005	Agency Funds
Assets	
Cash and cash investments	\$ 111,683
	\$ 111,683
Liabilities	
Due to other funds	•
Performance deposits	\$ 1
Due to other governments	72,641
	39,041
	\$ 111,683

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the City of Norton Shores have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Financial Reporting Entity

The City of Norton Shores was incorporated April 16, 1968, under the provisions of the Home Rule Act of the State of Michigan. The City operates under a Mayor-Council form of government with a professional City Administrator. The City of Norton Shores provides the following services as authorized by its charter or state law: General Administrative Services, Public Safety, Highway and Street Maintenance, Sanitation, Culture, Recreation and Other Governmental Functions. The accounting policies of the City of Norton Shores conform to generally accepted accounting principles as applicable to cities. As required by generally accepted accounting principles, Governmental Accounting Standards Board (GASB) 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

<u>Component Units</u> – In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units. Discretely presented component units have a June 30th year end.

Discretely presented component units – The Component Units column in the combined financial statements includes the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

Notes to Basic Financial Statements

The Economic Development Corporation of the City of Norton Shores (EDC) was incorporated as a nonprofit corporation pursuant to the provisions of Act 338, Public Acts of 1974, of the State of Michigan as amended. Members of the EDC are appointed by the City Council. The EDC is fiscally dependent on the City since the City Council approves the EDC budget. Organized primarily to expand the City's industrial base, the EDC acquired, developed and marketed an industrial park in the City and provides for other economic development related projects. With the completion of infrastructure lot sales in its Phase II Development, assets of the EDC were transferred to the City and have been classified as the Industrial Development Fund in the Capital Project Funds to allow for fund accumulation to finance future industrial development.

The Tax Increment Financing Authority of the City of Norton Shores (TIFA) was incorporated as a nonprofit corporation pursuant to the provisions of Act 450, Public Acts of 1980, of the State of Michigan, as amended. Organized primarily to expand the City's industrial park, the TIFA district was expanded in late 1986 to provide for commercial and industrial development along the U.S. 31 corridor in the eastern part of the City. For financial reporting purposes, the TIFA is reported as a discretely presented component unit in that members of the TIFA are approved by the City Council and the TIFA is fiscally dependent on the City since the City Council approves the TIFA budget. The TIFA is presented as a governmental fund type.

The Brownfield Redevelopment Authority of the City of Norton Shores (Authority) was incorporated as a nonprofit corporation pursuant to the provisions of Act 381, Public Acts of 1996, of the State of Michigan, as amended. The objective of the Authority is to facilitate Brownfield Redevelopment by providing funding for eligible environmental activities and allowing developers to obtain a Single Business Tax Credit for eligible investments at Brownfield properties. For financial reporting purposes, the Authority is reported as a discretely presented component unit in that members of the Authority are approved by the City Council and the Authority is fiscally dependent on the City since the City Council approves the Authority budget. The Authority is presented as a governmental fund type.

Notes to Basic Financial Statements

Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Notes to Basic Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Notes to Basic Financial Statements

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for motor fuel tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's major streets.

Capital Improvements Fund – The Capital Improvements Fund is used to account for the City Charter – authorized two (2) mill property tax levy and related restricted revenues for the acquisition of land, equipment, facilities, improvements and similar items for general governmental use.

The City reports the following major proprietary fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for user fees, contributed capital and related revenues for the acquisition and operation of the Water and Sewer Utility System.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

Notes to Basic Financial Statements

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchases of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments.

Cash equivalents are short-term, highly liquid investments that have the following characteristics:

- Investments that are readily convertible to known amounts of cash
- Investments that mature in such a short period of time that their values are effectively immune from changes in interest rates
- Original maturity of three months or less

Investments are stated at fair value. The City maintains a pooled investment fund to account for all investments of the various City funds. Investments within this pooled investment fund are shown on the balance sheets of each individual fund as cash and cash equivalents.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Notes to Basic Financial Statements

Property Taxes

Property taxes attach as enforceable liens on property as of December 31st. Taxes are levied on July 1st of the following year and are payable from the date of levy through August 31st without penalty and until March 1st of the following year with penalty. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date (July 1st).

The City bills and collects it own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the Trust and Agency Fund. The City is permitted by charter or state law without voter approval to levy taxes up to \$7.00 per \$1,000 of state equalized valuation for general governmental purposes, \$3.00 for sanitation and the amount required to service the General Obligation Debt. The tax rate to finance City services for the year ended June 30, 2005 was \$8.1837 per \$1,000 of taxable valuation.

Inventories

Inventory in the water and sewer fund is valued at the lower of cost (first-in, first-out) or market. Inventory in the governmental funds consist of expendable supplies which are recorded as an expenditure at the time individual inventory items are purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items. These prepaid items are primarily insurance premiums and fiscal year 2006 memberships invoiced prior to July 1, 2005. The City follows the consumption method of accounting in reporting these items and, therefore, no offset by a fund balance reserve is required.

Notes to Basic Financial Statements

Restricted Assets

Certain proceeds of enterprise fund general obligation bonds, as well as certain resources set aside for future sanitary sewer improvements, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or City Council resolution.

Capital Assets

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

For the year ended June 30, 2005 the City has elected to utilize the transition reporting options for infrastructure assets. As such, retroactive capitalization of infrastructure assets in existence prior to July 1, 2002, are not included in these financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	•
Furniture and other equipment	4-8 years
In fraction and other equipment	10 years
Infrastructure	20 years

Notes to Basic Financial Statements

Compensated Absences

The liability for compensated absences reported in the city-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Notes to Basic Financial Statements

Comparative Data

Comparative total data for the prior year has not been presented in the accompanying financial statements.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. Legal Compliance – Budgets

During the month of February of each year, all agencies of the City submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared by fund, function and activity on a program basis, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

At the second City Council meeting in April, the proposed budget is presented to the Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations. Any changes in the budget must be within the revenues and reserves estimated as available by the City Administrator or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations were necessary. The supplementary appropriations in all cases were immaterial, consisting primarily of authorized expenditure of funds approved in the prior year but occurring in the current fiscal year. These supplementary appropriations are required due to annual appropriations lapsing at fiscal year end.

Notes to Basic Financial Statements

3. Cash and Temporary Investments

Deposits

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk related to deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. It is the City's policy to reduce custodial credit risk related to deposits by using only pre-qualified financial institutions, broker/dealers, intermediaries and advisors. At June 30, 2005, \$278,658 of the City's bank balances of \$387,660 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$278,658

Investments

At June 30, 2005, the City had the following investments:

Investment	Fair Value
GNMA Bonds Unit Investment Trusts Money Market Funds Closed-end funds	\$ 7,286,502 4,170,748 807,407 3,475,971
Total	\$15,740,628

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. It is the City's policy to reduce interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Notes to Basic Financial Statements

Custodial Credit Risk Related to Investments

Custodial credit risk related to investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. All of the City's investments are held in the name of the City.

Credit Risk

State statutes authorize the City to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The City had no investment policy that would further limit its investment choices. The City's investment in unit investment trusts, money market funds and closed-end funds were not rated at June 30, 2005.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Notes to Basic Financial Statements

4. Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental Activities				
Capital assets, not depreciable:				
Land	\$ 1,875,699	\$ -	\$ -	\$ 1,875,699
Capital assets being depreciated:				
Buildings	2,793,652	33,183	-	2,826,835
Land improvements	1,245,813	42,883	-	1,288,696
Machinery, equipment, vehicles and fixtures	9,601,595	1,317,529	355,253	10,563,871
Infrastructure		78,169		78,169
Total assets being depreciated	13,641,060	1,471,764	355,253	14,757,571
Less accumulated depreciation for:				
Buildings	(1,496,792)	(56,537)	_	(1,553,329)
Improvements	(546,894)		-	(571,810)
Machinery, equipment, vehicles and fixtures	(6,203,184)	(1,066,682)	355,253	(6,914,613)
Infrastructure	**	(3,908)	-	(3,908)
Total accumulated depreciation	(8,246,870)	(1,152,043)	355,253	(9,043,660)
Total capital assets being depreciated, net	5,394,190	319,721	<u>-</u>	5,713,911
Governmental Activities – Capital Assets, Net	\$ 7,269,889	\$ 319,721	\$ -	\$ 7,589,610

Notes to Basic Financial Statements

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Business-type				
Capital assets, not depreciable:				
Land	\$ 250	\$ -	\$ -	\$ 250
Construction in progress	4,073,691	251,841		4,325,532
	4,073,941	251,841	_	4,325,782
Capital assets being depreciated:		-		.,=,
Regional water system	1,510,285			1 510 005
Water mains and hydrants	9,241,426	40,493	-	1,510,285
Meters	12,348	40,493	-	9,281,919
Sewers and lift stations	35,581,588	29,239	-	12,348
Machinery and equipment	114,912	27,237	-	35,610,827
Wastewater treatment	5,400,608	-	-	114,912 5,400,608
Total assets being depreciated	51,861,167	69,732		51,930,899
Less accumulated depreciation for:				, , , -
Water mains and hydrants	(2 (22 000)	(4 (4 0 40)		
Meters	(3,633,088)	(161,849)	-	(3,794,937)
Sewers and lift stations	(12,348)	(710 (00)	-	(12,348)
Machinery and equipment	(15,132,153)	(713,699)	-	(15,845,852)
Wastewater treatment	(112,619)	(1,369)	-	(113,988)
	(3,211,746)	(108,012)		(3,319,758)
Total accumulated depreciation	(22,101,954)	(984,929)	-	(23,086,883)
Total capital assets being depreciated, net	29,759,213	(915,197)	<u> </u>	28,844,016
Business-type Activities – Capital Assets, Net	\$ 33,833,154	(663,356)	\$ -	\$ 33,169,798
Component Units Tax Increment Finance Authority Construction in progress	\$ - 5	5 1,241,299		\$ 1,241,299

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities: General government Public safety	\$ 141,684 1,010,359
Total Depreciation Expense - Governmental Activities	\$ 1,152,043
Business-type activities: Water and Sewer	\$ 984,929

Notes to Basic Financial Statements

5. Long-Term Debt The following is a summary of the long-term debt outstanding of the City as of June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One year
Governmental Activities					
1993 Michigan Transportation Fund Bonds maturing through 2008, interest ranging from 3.125% - 4.875%.	\$1,500,000	\$ -	\$(250,000)	\$ 1,250,000	\$300,000
CDBG Act 108 loan payable in annual installments of \$20,000. Final payment due August 1, 2009	125,000	-	(20,000)	105,000	20,000
Obligations under contract with Muskegon County	100,000	-	(100,000)	-	<u>-</u>
Capital lease payable in annual installments of \$46,295 including interest at 4.59%. Final payment due September 2005	271,907	-	(33,815)	238,092	35,367
Accumulated compensated absences	384,333	19,580	-	403,913	
Total Governmental Activities Long-Term Debt	\$2,381,240	\$19,580	\$(403,815)	\$ 1,997,005	\$355,367
Business Type Activities					
Obligations under contract with County of Muskegon	\$ 4,013,957	\$ - \$	3 (316,317)	\$ 3,697,640	\$324,645
Obligations under contract with the City of Muskegon Heights	9,039,105	-	(151,210)	8,887,895	165,950
Accumulated compensated absences	74,785	492	-	75,277	
Total Business Type Activities Long-Term Debt	\$ 13,127,847	\$ 492 \$	(467,527)	§ 12,660,812	\$490,595
Total all Long-Term Liabilities	\$ 15,509,087	\$20,072 \$	(871,342)	14,657,817	\$845,962

Notes to Basic Financial Statements

The 1992 Muskegon County Wastewater Management System No. 1 contract was entered into with the County for increased construction costs incurred with respect to the 1989 contract for improvements to the sewage treatment facility. The City has pledged its limited tax full faith and credit toward the retirement of its share of the \$2,300,000 bond issue. In compliance with constitutional limitations, the City is utilizing sewer service charges as the retirement vehicle. Annual payments by the City for principal retirement will range from \$20,840 to \$208,180, with \$217,548 due in 2008.

The 2000 Muskegon County Water Supply System No. 1, Series II contract was entered into with the County for the construction of a regional transmission water main, enhancements for water supply storage, and construction of distribution water mains in the City. The City of Norton Shores is responsible for annual debt service in the amount equal to its share of system construction costs, currently estimated at 55% of the total. The City has pledged its limited full faith and credit toward the retirement of its share of the \$6,500,000 bond issue. In compliance with constitutional limitations, the City is utilizing water service charges as the retirement vehicle.

Bond ordinances of several past issues contain provisions that restrict the use of unexpended bond proceeds for additional sewer system improvements or retirement of the related debt. The unexpended proceeds and accumulated investment earnings are presented as restricted assets.

The 2000 Muskegon Heights Water Supply System contract was entered into with the City of Muskegon Heights to provide a 7.8 million gallon per day water treatment capacity increase to service the cities of Muskegon Heights, Norton Shores and Fruitport Township. The City of Norton Shores is responsible for annual debt service in an amount equal to its previous year pro-rata share of water purchases, currently estimated at 50.62% of the total. The City has pledged its limited full faith and credit toward the retirement of its share of the \$18,485,000 bond issue. In compliance with constitutional limitations, the City is utilizing water service charges as the retirement vehicle.

Notes to Basic Financial Statements

The total requirement for payment of principal and interest amount to \$14,178,627 and \$9,596,195, respectively at June 30, 2005 as follows:

	Governmental	Governmental Activities		pe Activities
	Principal	Interest	Principal	Interest
2006-2010 2011-2015 2016-2020 2021	\$ 1,593,092 - - -	\$152,406 - - -	\$ 2,472,897 1,953,836 2,877,037 5,281,765	\$ 3,180,235 2,555,932 1,912,869 1,794,753
	\$1,593,092	\$152,406	\$ 12,585,535	\$ 9,443,789

6. Interfund Balances and Transfers

Interfund receivables and payables at June 30, 2005 consist of:

Fund	Interfund Receivable	Fund	Interfund Payable	
General Fund	\$ 1	Trust and Agency - Other	\$ 1	

Interfund transfers during the fiscal year were as follows:

Fund	Transfer in	Transfer out
Major Streets Capital Improvements Local Improvement Debt Service	\$ 24,931 - 25,000 305,950	\$ - 114,931 -
Tax Incremental Finance Authority		240,950
	\$355,881	\$355,881

Notes to Basic Financial Statements

7. Risk Management

The City purchases insurance and participates in public entity risk pools for the various risks associated with City operations. Significant risk management activities of the City are accounted for and disclosed below as required by GASB 10.

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains its liability insurance coverage as a member of the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing liability and property coverage to its participating members. The City pays an annual premium to MMLPP for The MMLPP is self-sustaining liability insurance coverage. through member premiums and provides, subject to certain deductibles, occurrences based coverage by internally insuring certain risks and reinsuring risks through commercial companies. A \$1,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal League Workers' Compensation Fund (MMLWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMLWCF for its workers compensation coverage. The MMLWCF is self-sustaining through member premiums and provides statutory workers compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past four fiscal years.

Notes to Basic Financial Statements

8. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

9. Post-Employment Health Care Benefits

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. All of the City's full-time employees may become eligible for those benefits if they qualify for normal retirement while working for the City. The cost of retiree health care insurance benefits is recognized as expense as premiums are paid. For the year ended June 30, 2005, those costs total \$441,473 for the 54 retirees receiving health care insurance benefits.

10. Retirement Plan

Plan Description

The City's defined benefit pension plan, City of Norton Shores Employees' Retirement System (CNSERS), provides retirement, death and disability benefits to plan members and beneficiaries. CNSERS is affiliated with the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer pension plan administered by the nine member board of MERS. Public Act 135 of 1945 as amended by Public Act 220 of 1996 assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for CNSERS, that authority rests with the City of Norton Shores. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting Municipal Employees' Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917.

Notes to Basic Financial Statements

Funding Policy

CNSERS members are not required to contribute. The City is required to contribute at actuarially determined rates; the current rates range from 14.48% to 38.17% of annual covered payroll depending on the level of benefits adopted for the member groups of the City. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2005, the City's annual pension cost of \$903,630 for CNSERS was equal to the City's required contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 4.5% inflation rate, compounded annually, (b) 8.0% investment rate of return (net of administrative expenses), (c) projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of CNSERS assets was determined using techniques that smooth the effects of shortterm volatility in the market value of investments. CNSERS' unfunded actuarial accrued liability is being amortized as a level percentage of payroll over an open amortization period of 30 years.

Three-Year Trend Information for CNSERS

Fiscal Year	Annual Pension	Percentage of APC Contributed	Net Pension
Ending	Cost (APC)		Obligation
6/30/03	758,398	100	-
6/30/04	899,193	100	
6/30/05	903,630	100	

Notes to Basic Financial Statements

11. Excess of Expenditures Over Revenues in Budgetary Funds

During the year ended June 30, 2005, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

Year ended June 30, 2005	Appropriation	Actual Expenditures
Accounting and financial Administration Records and information Building and grounds maintenance Investigations Fire mgt Fire operations	\$ 207,754 148,311 135,492 387,510 209,975 1,279,857	\$ 208,301 152,749 138,039 389,203 210,610 1,290,478

All expenditures over appropriations as identified above have been paid by excess revenues or by reduced expenditures in other activities.

Required Supplemental Material

	General Fund			
June 30, 2005	Original Budget	Final Budget	Actual	Difference
Revenues				
Taxes	\$3,946,919	\$3,913,511	\$3,931,239	\$ 17,728
Licenses and permits	227,300	222,300	228,941	6,641
Intergovernmental revenue			50 (55	(1.6.002)
Federal	39,100	66,748	50,655	(16,093)
State	1,859,062	1,826,539	1,822,702	(3,837)
Charges for services	1,448,810	1,518,380	1,537,879	19,499
Fines and forfeits	85,750	78,074	87,602	9,528
Interest income	94,000	94,000	103,541	9,541
Miscellaneous	25,000	25,000	18,315	(6,685)
Total Revenues	7,725,941	7,744,552	7,780,874	36,322
Expenditures				
Current operations		0.104.071	2,056,486	48,385
General government	2,124,393	2,104,871		24,876
Public safety	4,821,460	4,836,085	4,811,209	6,377
Highways and streets	303,980	300,880	294,503	28,807
Culture and recreation	633,877	635,745	606,938	20,007
Administration		<u>-</u>		
Total Expenditures	7,883,710	7,877,581	7,769,136	108,445
Revenues Over (Under) Expenditures	(157,769)	(133,029)	11,738	144,767
Other Financing Sources (Uses) Interfund transfers in	-	-	-	-
Interfund transfers (out)	_	-	_	_
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	(157,769)	(133,029)	11,738	144,767
Fund Balance, at beginning of year	997,596	997,596	997,596	-
Fund Balance, at end of year	\$ 839,827	\$ 864,567	\$1,009,334	\$ 144,767

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Governmental Funds

<u></u>	Major S	Streets	
Original Budget	Final Budget	Actual	Difference
\$ -	\$ -	\$	\$ -
-	-	-	-
453,806 1,426,786	478,000 1,361,724	42,923 1,386,585	(435,077) 24,861
-	-	-	-
11,000 57,794	11,000 4,500	4,864 8,813	(6,136) 4,313
1,949,386	1,855,224	1,443,185	(412,039)
-	-	_	-
1,715,200	1,689,700	1,262,938	426,762
251,917	248,423	242,642	5,781
1,967,117	1,938,123	1,505,580	432,543
(17,731)	(82,899)	(62,395)	20,504
10,138	24,931	24,931	-
10,138	24,931	24,931	_
(7,593)	(57,968)	(37,464)	20,504
86,754	86,754	86,754	
\$ 79,161	\$ 28,786	\$ 49,290 \$	20,504

Required Supplementary Information for Pension Plans – GASB 27

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
December 31: 2002 2003 2004	15,095,784 16,110,891 16,884,882	22,090,252 23,623,313 26,218,103	6,994,468 7,512,422 9,333,221	68.34% 68.20% 64.40%	4,844,703 4,815,069 4,797,527	145.70% 156.02% 194.54%

	Special Revenue					
June 30, 2005	Local Street	~ ~ ~ ~ ~ ~		Community Development Program		
Assets Cash and cash equivalents Due from other governments Due from other funds	\$281,975 72,682	\$714,103 -	\$310,050 -	\$6,900		
Accounts receivable Special assessments receivable Prepaid items	55 - 651	- - -	340 - 5,899	169		
Total Assets	\$355,363	\$714,103	\$316,289	\$7,069		
Liabilities and Fund Balances Liabilities Accounts payable Accrued payroll Performance deposits Unearned revenues	\$ 2,758 861 - -	\$ 2,071 2,197	\$ 50,251 3,033	\$ - - -		
Total Liabilities	3,619	4,268	53,284	_		
Fund balances Reserved for debt service Reserved for perpetual care Unreserved Designated for subsequent	-	-	- -	- -		
year's expenditures Undesignated	351,744	709,835	263,005	- 7,069		
Total Fund Balances	351,744	709,835	263,005	7,069		
Total Liabilities and Fund Balances	\$355,363	\$714,103	\$316,289	\$7,069		

Combining Balance Sheet - Non-Major Governmental Funds

	Debt Service	Capital Projects	Permanent	
- -				m . 1
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$1,459,488	\$ 57,478	\$593,615	\$415,923	\$3,839,532
-	-	-	-	72,682
-	-	-	-	_
300,717	142,298	-	_	564 443,015
24,347	142,290	-	-	30,897
	_		_	
\$1,784,552	\$199,776	\$593,615	\$415,923	\$4,386,690
\$ -	\$ -	\$ -	\$ -	\$ 55,080
-	-	<u>-</u>	-	6,091
63,372	142,298	<u>-</u>	_	205,670
63,372	142,298	-	-	266,841
	ee 450			
-	57,478	-	415,923	57,478 415,023
-	-	-	413,923	415,923
		220.000		220.000
1,721,180	-	220,000 373,615	-	220,000 3,426,448
1,721,180	57,478	593,615	415,923	4,119,849
\$1,784,552	\$199,776	\$593,615	\$415,923	\$4,386,690

		Special Revenue				
Year ended June 30, 2005	Local Street		Building	Community Development Program		
Revenues						
Taxes	\$ -	\$ 756,561	\$ -	\$ -		
Licenses and permits	-	-	555,560	-		
Assessments levied	-	-	· •	-		
Sale of cemetery lots	-	-	-	-		
Intergovernmental revenue						
Federal	-	-	-	132,756		
State	449,273		-	-		
Interest income Miscellaneous revenue	11,250	5,276	14,291	-		
	1,632	584	<u> </u>	11,964		
Total Revenues	462,155	762,421	569,851	144,720		
Expenditures						
Public safety	-	-	556,960	_		
Highways and streets	238,005	-	-	_		
Administration	95,862	69,228	59,153	-		
Cemetery maintenance	-	-	-	-		
Community development	-	-	-	111,882		
Solid waste disposal	-	707,660	-	-		
Capital outlay Debt service	-	-	-	-		
Principal payments						
Interest	-	-	-	20,000		
				9,840		
Total Expenditures	333,867	776,888	616,113	141,722		
Revenues over (under) expenditures	128,288	(14,467)	(46,262)	2,998		
Other Financing Sources (Uses) Interfund transfers in Interfund transfers out	-	-	- -	- -		
Total Other Financing Sources (Uses)	_	-	_	_		
Revenues and other sources over (under) expenditures and other uses	128,288	(14,467)	(46,262)	2,998		
Fund Balance, at beginning of year	223,456	724,302	309,267	4,071		
Fund Balance, at end of year	\$ 351,744	\$ 709,835	\$ 263,005	\$ 7,069		

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds

	Debt Service	Capital Projects	Permanent	
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$ - 80,492	\$ 64,020	\$ - - -	\$ - - 27,500	\$ 820,581 555,560 80,492 27,500
30,726	- 10,723 28,360	- - 26,107 -	19,098	132,756 449,273 117,471 42,540
111,218	103,103	26,107	46,598	2,226,173
- - - -	- - - -	- - - -	27,262 -	556,960 238,005 224,243 27,262 111,882 707,660
79,169	-	-	-	79,169
-	350,000 58,950	-	-	370,000 68,790
79,169	408,950	-	27,262	2,383,971
32,049	(305,847)	26,107	19,336	(157,798)
25,000	305,950	<u>-</u>	<u>-</u>	330,950
25,000	305,950	-		330,950
57,049 1,664,131	103 57,375	26,107 567,508	19,336 396,587	173,152 3,946,697
\$1,721,180	\$ 57,478	\$ 593,615	\$ 415,923	\$4,119,849

]	Local Street				
Year ended June 30, 2005	Budget	Actual	Variance			
Revenues Taxes Licenses and permits	\$ -	\$ -	\$ -			
Licenses and permits Assessments levied Sale of cemetery lots Intergovernmental revenue Federal	- - -	- -	- - -			
State Interest income Miscellaneous revenue	453,280 11,000	449,273 11,250 1,632	(4,007) 250 1,632			
Total Revenues	464,280	462,155	(2,125)			
Expenditures Public safety Highways and streets Administration Community development Solid waste disposal Capital outlay Debt service Principal payments Interest	363,600 136,278 - - -	238,005 95,862 - - -	125,595 40,416 - - -			
Total Expenditures	499,878	333,867	166,011			
Revenues over (under) expenditures	(35,598)	128,288	163,886			
Other Financing Sources (Uses) Interfund transfers in Interfund transfers out	-	<u>-</u>	<u>-</u>			
Total Other Financing Sources (Uses)		-	_			
Revenues and other sources over (under) expenditures and other uses	(35,598)	128,288	163,886			
Fund Balance, at beginning of year	223,456	223,456	_			
Fund Balance, at end of year	\$187,858	\$351,744	\$163,886			

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - Non-Major Governmental Funds

	Solid Waste			Building	
Budget	Actual	Variance	Budget	Actual	Variance
\$ 789,374 - -	\$ 756,561 - -	\$ (32,813)	\$ - 558,000	\$ - 555,560	\$ (2,440
-	-	-	-	-	-
-	- -	-	-	-	-
30,000 2,500	5,276 584	(24,724) (1,916)	21,000	14,291	(6,709)
821,874	762,421	(59,453)	579,000	569,851	(9,149)
-	-	-	529,197	556,960	(27,763)
69,228	69,228	-	59,153	59,153	-
784,200	707,660 -	76,540 -	-	-	-
-	- -	<u>-</u>	-	-	-
853,428	776,888	76,540	588,350	616,113	(27,763)
(31,554)	(14,467)	(17,087)	(9,350)	(46,262)	(36,912)
<u>-</u>	<u>-</u>	-	-	-	-
_	-	_	_	_	
(31,554)	(14,467)	(17,087)	(9,350)	(46,262)	(36,912)
724,302	724,302		309,267	309,267	- -
\$ 692,748 \$	709,835 \$	(17,087) \$	299,917	\$ 263,005 \$	(36,912)

	Community Development Program				
Year ended June 30, 2005	Budget	Actual	Variance		
Revenues Taxes Licenses and permits Assessments levied	\$ - - -	\$ - - -	\$ - - -		
Sale of cemetery lots Intergovernmental revenue Federal State Interest income	158,000	132,756	(25,244)		
Miscellaneous revenue	-	11,964	11,964		
Total Revenues	158,000	144,720	(13,280)		
Expenditures Public safety Highways and streets Administration	- - -	- - -	- -		
Community development Solid waste disposal Capital outlay Debt service	132,071	111,882	20,189		
Principal payments	20,000 10,000	20,000 9,840	- 160		
Interest Total Expenditures	162,071	141,722	20,349		
Revenues over (under) expenditures	(4,071)	2,998	7,069		
Other Financing Sources (Uses) Interfund transfers in Interfund transfers out	- - -	-	- -		
Total Other Financing Sources (Uses)	_	-			
Revenues and other sources over (under) expenditures and other uses	(4,071)	2,998	7,069		
Fund Balance, at beginning of year	4,071	4,071			
Fund Balance, at end of year	\$ -	\$ 7,069	\$ 7,069		

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
- Non-Major Governmental Funds

Local Improvement						
Budge	t	Actual	Variance			
\$.	- \$	-	\$ -			
74,000 - -) -	80,492 - -	6,492			
81,500		30,726	(50,774)			
155,500		111,218	(44,282)			
-		- - -	- 			
-		-	-			
-		79,169	(79,169)			
		-	<u>-</u>			
		79,169	(79,169)			
155,500		32,049	(123,451)			
25,000		25,000				
25,000		25,000	-			
180,500		57,049	(123,451)			
1,664,131	1,6	664,131	-			
\$1,844,631	\$ 1,7	721,180	\$(123,451)			

	D	Debt Service				
Year ended June 30, 2005	Budget	Actual	Variance			
Revenues			A. 4.000			
Taxes	\$ 62,140	\$ 64,020	\$ 1,880			
Licenses and permits	• -	-	_			
Assessments levied	-	_	-			
Sale of cemetery lots Intergovernmental revenue						
Federal	-	-	_			
State	-	-	· –			
Interest income	17,500	10,723	(6,777)			
Miscellaneous revenue	28,360	28,360	_			
Total Revenues	108,000	103,103	(4,897)			
Expenditures						
Public safety	-	_	-			
Highways and streets Administration	_	_	_			
Cemetery maintenance	-	_	_			
Community development	-	_	_			
Solid waste disposal	-	-	-			
Capital outlay	-	-	-			
Debt service		252.222				
Principal payments	350,000	350,000	-			
Interest	58,950	58,950	-			
Total Expenditures	408,950	408,950	-			
Revenues over (under) expenditures	(300,950)	(305,847)	(4,897)			
Other Financing Sources (Uses) Interfund transfers in Interfund transfers out	305,950	305,950	-			
Total Other Financing Sources (Uses)	305,950	305,950	_			
Revenues and other sources over (under) expenditures and other uses	5,000	103	(4,897)			
Fund Balance, at beginning of year	57,375	57,375	-			
Fund Balance, at end of year	\$ 62,375	\$ 57,478	\$ (4,897)			

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non-Major Governmental Funds

Industr	rial Developme	ent		Cemetery Care	
Budget	Actual	Variance	Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ - -	\$ -
- - -	- - -	- - -	- - -	27,500	27,500
20,000	- - 26,107	- - 6,107	- - -	- 19,098	19,098
20,000	26,107	6,107	-	46,598	46,598
- -	- -	-	- - -	- - -	
- - -	- - -	- - -	-	27,262	(27,262
-	-	-	-	-	
-			-		(0.7. 0.6)
_			-	27,262	(27,262
20,000	26,107	6,107	-	19,336	19,336
-	-	- - -	-	-	
_	-	-	-	-	
20,000	26,107	6,107	-	19,336	19,33
567,508	567,508	_	396,587	396,587	
\$587,508	\$593,615	\$6,107	\$396,587	\$415,923	\$ 19,33

Internal Service Fund – Equipment Revolving Fund

Balance Sheet

June 30, 2005	
Assets	
Current Assets	
Cash and cash equivalents	\$1,423,665
Prepaid expenses	36,962
Total Current Assets	1,460,627
Equipment, net of accumulated depreciation of \$2,516,524 in 2005 and \$2,477,203 in 2004	1,271,271
Total Assets	2,731,898
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	3,499
Accrued payroll	2,395
Compensated absences payable	5,781
Total Liabilities	11,675
Net Assets	
Invested in capital assets – net of related debt	1,271,271
Reserved for replacement	1,448,952
Total Net Assets	\$2,720,223

Internal Service Fund – Equipment Revolving Fund Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2005	
Operating Revenues	
Billings to departments	\$ 992,296
Miscellaneous operating revenues	27,136
Total Operating Revenues	1,019,432
Total Operating Expenses	1,087,102
Operating loss	(67,670)
Non-Operating Revenues (Expenses)	
Interest income	45,307
Gain on sale of equipment	85,061
Total Non-Operating Revenues (Expenses)	130,368
Net Income	62,698
Net Assets, at beginning of year	2,657,525
Net Assets, at end of year	\$ 2,720,223

Internal Service Fund – Equipment Revolving Fund

Statement of Cash Flows

Year ended June 30, 2005	
Cash Flows from Operating Activities Operating loss Adjustments to reconcile operating loss to net	\$ (67,670)
cash from operating activities	394,574
Depreciation Changes in assets and liabilities Accounts receivable Prepaid expenses Accounts payable Accrued liabilities	1,115 (1,320) (1,940) 2,890
Total Cash Flows from Operating Activities	327,649
Cash Flows from Capital and Related Financing Activities Proceeds from sale of fixed assets Purchase of fixed assets	85,061 (432,519)
Total Cash Flows from Capital and Related Financing Activities	(347,458)
Cash Flows from Investing Activities Interest income	45,307
Increase in Cash	25,498
Cash, at beginning of year	1,398,167
Cash, at end of year	\$ 1,423,665

Agency Funds - Trust and Agency Balance Sheet

June 30, 2005	
Assets and Other Debits Cash and cash equivalents	\$111,683
Total Assets and Other Debits	\$111,683
Liabilities	
Liabilities Due to other funds	C 1
Performance deposits	\$ 1 72,641
Due to other governments	39,041
Total Liabilities	\$111,683

Agency Funds

Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2004		Increases		Decreases		Balance June 30, 2005
Trust and Agency Taxes							
Assets							
Cash and cash equivalents	\$ 61	\$	29,135,094	\$	29,135,153	\$	2
Due from other governments	335,418				335,418		
	\$ 335,479	\$	29,135,094	\$	29,470,571	\$	2
Liabilities							
Due to other funds	\$ 200,531	\$	_	\$	200,530	\$	1
Due to other governments	134,948		29,392,288		29,527,235	Ψ	1
	\$ 335,479	\$2	29,392,288	\$:	29,727,765	\$	2
Trust and Agency - Other							
Assets							
Cash and cash equivalents	\$ 298,422	\$	306,052	\$	492,793	\$	111,681
Accounts receivable	13		-		13		
	\$ 298,435	\$	306,052	\$	492,806	\$	111,681
Liabilities							
Due to other funds	\$ 2,753	\$	12,380	\$	15,133	\$	
Performance deposits	251,219	*	52,134	Ψ	230,712	Ф	72,641
Due to other governments	44,463		248,377		253,800		39,040
	\$ 298,435	\$	312,891	\$	499,645	\$ 1	11,681

Agency Funds

Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Total Trust and Agency				
Assets				
Cash and cash equivalents	\$ 298,483	\$29,441,146	\$29,627,946	\$ 111,683
Due from other governments	335,418	-	335,418	-
Accounts receivable	13		13	-
	\$ 633,914	\$29,441,146	\$29,963,377	\$ 111,683
Liabilities				
Due to other funds	\$ 203,284	\$ 12,380	\$ 215,663	\$ 1
Performance deposits	251,219	52,134	230,712	72,641
Due to other governments 179,411	29,640,665	29,781,035	39,041	
	\$ 633,914	\$29,705,179	\$30,227,410	\$ 111,683

City of Norton Shores, Michigan

Additional Reports Required by Government Auditing Standards
June 30, 2005

City of Norton Shores, Michigan

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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3145 HENRY STREET, STE. 200 MUSKEGON, MI 49441-4052 TEL: 231-739-9441 FAX: 231-733-0031 WWW.PRIDNIALAPRES.COM

Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Honorable Mayor and Members of the City Council City of Norton Shores, Michigan

We have audited the financial statements of the City of Norton Shores, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Norton Shores, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Norton Shores, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the members of the City Council, management and the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than those specified parties.

Predmia Latres, PLLC

Muskegon, Michigan September 8, 2005